FTR Now

Ontario Pension Solvency Funding Framework Under Review

Date: May 19, 2016

Ontario registered defined benefit (DB) pension plans must be funded on the greater of a going concern or solvency basis. Due to the recent, yet prolonged, low-interest rate environment, most DB plans are in a deficit position on a solvency basis, requiring many employers to make large special payments to fund the deficits over a five-year period. In 2009 and 2012, the Ontario government introduced special temporary solvency funding relief measures for private sector sponsors of single employer DB pension plans to address the problem. Alternate solvency funding relief measures have also been made available to some broader public sector plans.

In accordance with announcements made in the 2016 Ontario Budget, Jobs for Today and Tomorrow, two new measures to address the current DB solvency funding problem are now underway:

- draft Regulations in respect of a third round of temporary solvency funding relief were released for comment on May 6, 2016, and
- the government launched a review of the current solvency funding regime with a view to developing a balanced set of solvency funding reforms.

We discuss them in this *FTR Now*.

Temporary Solvency Funding Relief is Extended

The proposed amendments to Regulation 909 extend the current temporary solvency funding relief measures for private sector employers for an additional three years. For most single employer DB plans, this round of solvency funding relief is available in relation to the first filed valuation report with a valuation date between December 31, 2015 and December 30, 2018. Very generally, once adopted, the Regulations will permit employers to:

- consolidate their existing solvency payments into a new five-year payment schedule, and/or
- extend the solvency payment schedule to a maximum of ten years for any new solvency deficiency, a five-year extension to the regular five-year amortization schedule.

In order to elect the latter option, the consent of plan beneficiaries is necessary. This consent is obtained where no more than one-third of all members, including active, former and retired members, object to the adoption of the ten-year solvency deficit amortization schedule.

These proposed 2016 temporary solvency funding relief measures are available regardless of whether the employer took advantage of prior rounds of solvency funding relief in 2009 and 2012.

If either option is elected and benefit enhancements are granted, the enhancements must generally be funded over a five-year amortization period.

Solvency Funding Reform

In addition to the extension of the temporary solvency funding relief measures, the government is now undertaking a review of the current solvency funding framework.

The review is being led by David Marshall, former President and CEO of the Workplace Safety and Insurance Board. As set out in the 2016 Budget, “he will provide advice and recommendations to the Minister, with a view to assisting the Ministry of Finance in developing a balanced set of solvency funding reforms that would focus on plan sustainability, affordability and benefit security, and take into account the interests of pension stakeholders – including sponsors, unions, members and retirees.” A stakeholder reference group has been appointed.

This Ontario review comes on the heels of alternative funding models having been recently introduced in Alberta, British Columbia and Quebec. Significantly, effective January 1, 2016, Quebec has eliminated the solvency funding requirements for private sector DB plans in exchange for a more robust going concern funding regime.

Stakeholder consultations have commenced and the government has announced that a consultation paper outlining possible reform measures will be released in Spring 2016.

Conclusions

It is anticipated that the draft temporary solvency funding relief Regulations for private sector pension plans will be finalized in the near future with few or no changes to the draft released on May 6, 2016. The formal consultation paper on solvency funding reform is expected to be released shortly. If you have questions about either of these initiatives, please contact any member of the Hicks Morley Pension Benefit & Executive Compensation Group.
